

JEWEL TEA CO., INC. ANNUAL REPORT 1964

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Results in Brief

	52 Weeks ended Jan. 30, 1965	52 Weeks ended Feb. 1, 1964
	<i>As of</i> <i>Jan. 30, 1965</i>	<i>As of</i> <i>Feb. 1, 1964</i>
Retail sales.....	\$781,834,740	\$747,536,433
Earnings:		
Before federal income taxes.....	23,045,268	21,749,601
Net for the year.....	12,887,268	11,135,601
Per cent to sales and revenues.....	1.6%	1.5%
Earned per share of common stock.....	\$ 3.13	\$ 2.70
Cash dividends paid per share of common stock.....	\$ 1.60	\$ 1.60
New property, plant and equipment (net).....	\$ 17,604,252	\$ 13,141,907
Funds generated from operations less dividends paid.....	\$ 16,501,243	\$ 14,770,975
Net working capital.....	\$ 64,865,695	\$ 69,957,662
Ratio of current assets to current liabilities.....	2.0 to 1	2.3 to 1
Operating units:		
Supermarkets.....	324	334
Home Service Routes.....	2,103	2,031
Retail Drug Stores & Departments.....	74	53
Self-Service Department Stores.....	10	9
Candy—Ice Cream—Bakery—Luncheon Shops.....	66	61
Stockholders.....	11,655	12,236
Common shares outstanding.....	4,061,293	4,045,691
Preferred shares outstanding.....	49,127	50,947
Full-time employees.....	14,437	14,256

Management's Report

March 17, 1965

WE ARE PLEASED TO REPORT new records in sales and earnings for the 52 weeks ended January 30, 1965, the Company's 66th year of operation. Retail sales were \$781,834,740, a rise of \$34,298,307 or 4.6% over last year. Net earnings increased 15.7% to \$12,887,268 this year compared with \$11,135,601 a year ago. Net earnings per share were \$3.13, up from \$2.70 in 1963.

The earnings increase of 43 cents per common share resulted from improved operating earnings, reduction in corporate tax rates and a change in the treatment of investment credits, the latter amounting to 15 cents per share. Again this year, reported net earnings *do not* include the Company's equity in the net earnings of unconsolidated real estate affil-

ates which amounted to \$564,000 or 14 cents per Jewel share compared with \$407,000 or 10 cents per share in 1963.

In the past year 18 new Jewel, Eisner and Star supermarkets were opened and three were substantially enlarged and remodeled. A total of 28 outmoded or unprofitable stores were closed or otherwise disposed of. Twenty-one new Osco self-service drug stores or drug departments in Jewel supermarkets were opened. One new Turn-Style Family Center was opened in Quincy, Massachusetts. In addition, seven new Brigham's ice cream-sandwich shops were opened in the Boston Area in 1964 and two units were closed. A total of 77 Home Service Routes were established last year while five routes were closed.

Midwest food store operations during 1964 showed gains in total sales as well as in sales of "identical" stores, i.e., those stores in operation in both 1963 and 1964 without major physical change. Particularly noteworthy has been the sharply improved trend of food store sales in those stores adjacent to or combined with drug stores or other general merchandise facilities.

Construction of new perishables warehousing and expanded office facilities begun in 1964 is now nearing completion. When completed, office and warehousing operations serving our Midwest retail stores, other than the Eisner Division units in southern Illinois and western Indiana which have their own distribution center, will be concentrated on a 92-acre site at Melrose Park, Illinois as illustrated in this report. Our original perishables warehouse and stores' office building on the south side of Chicago has been sold. Leased freezer and cooler space as well as office space leased in the Merchandise Mart in Chicago will also be vacated.

Star Market Co., which was merged with Jewel as of January 31, 1964, had improved sales and earnings. Star's oper-

ating territory was extended successfully to South Boston, an area previously not served. The initial performance of the new Star supermarket units and the gains reported for Brigham's point to a growing contribution by Star to Jewel's progress in the future. Plans are being developed for new distribution and manufacturing facilities for Star in Boston similar to those nearing completion in Melrose Park, Illinois.

Oscow Drug, Inc. "Main Street" stores numbered 38 including one new unit opened during the year. Again in 1964 these stores contributed substantially to the gain in Jewel's sales and earnings. A substantial expansion of the "Main Street" store operation will begin in late 1965.

The addition of 20 new drug stores and drug departments to the Chicago Oscow Drug Division in 1964 brings the total in operation to 36 units, 35 of which are adjacent to or included within Jewel food stores. Our Chicago program for providing neighborhood one-store shopping facilities which satisfy a wide variety of everyday shopping needs has gained increased customer acceptance. The 1964 losses of the Chicago drug division were caused by absorption of all start-up costs for new units.

Operating losses of our Turn-Style Family Centers were reduced in 1964. The improvement in Turn-Style was the direct result of better operating methods, increased sales, closer control of expenses, reduced start-up costs and the evolving skills of the Company's central buying organization. It is anticipated that several of these stores will earn a profit in 1965. A small unprofitable 45,000-square-foot Turn-Style unit located in Lynn, Massachusetts, which was outdated, was closed in mid-February, 1965. A large Turn-Style Family Center of 100,000 square feet was opened at Quincy, Massachusetts in early November. It offers customers a Star Market, Brigham's ice cream-sandwich shop, and a large general merchandise section.

Jewel's Home Service Routes continued to grow in 1964. Particularly important was the gain in catalog and other general merchandise sales. The program of new route building in major metropolitan areas was in line with our objective of 75 new routes each year.

During 1965 your Company expects to open 19 new supermarkets, 18 drug stores or drug departments, 12 Brigham's ice cream-sandwich shops, and 75 Home Service Routes. Five small supermarkets will be closed. Capital expenditures including final payments on new warehouse and office construction at Melrose Park will approximate \$16,000,000. No new financing is contemplated.

The significance of high morale and a strong sense of purpose on the part of Jewel people was demonstrated again in 1964, a year of record sales and earnings. The anticipated continued expansion of disposable personal income plus the desire and ability to please customers should provide opportunities for still further growth in sales and earnings.

Our thanks go out to all Jewel people whose dedication to customer service this year as in past years is the basis for the progress described in this report.

K. L. Clements

Chairman of the Board

D. S. Perkins

President

J. H. Lanning

Chairman, Finance Committee

New Dimensions for Growth

General Merchandise

During the past three years, major investments were made to more completely serve Jewel customer needs for frequently purchased non-food items. Underlying these investments has been our effort to provide the convenience of low-cost, one-stop shopping for a combination of food, drug and general merchandise items. About 20 percent, or \$150,000,000, of Jewel's sales in 1964 were in the general merchandise area compared with 6 percent in 1959.

Jewel first entered the general merchandise field through expansion of the lines offered by our Home Service Routes, including the addition of a catalog home shopping service. The growth of this catalog service within the Routes Department has been rewarding. Although Jewel has published a catalog since 1949, in 1965 a major step forward will be taken to provide an expanded and more complete service to our Route customers. While the 1965 Spring & Summer book will be 120 pages, similar in size to recent catalogs, the 1965 Fall & Winter book will be enlarged to 144 pages, the largest catalog yet produced for Route customers. Much of the increase in space

will be devoted to women's fashions, the fastest growing catalog department. Supplementary catalogs for outdoor activities and for Christmas selling are also issued.

In 1961 the acquisition of Osco Drug, Inc. added a second dimension to Jewel's general merchandise program. These stores, in addition to prescriptions and a full line of drugs, carry both popular and prestige lines of cosmetics, toiletries and broad assortments of housewares, hardware, cameras, toys, auto supplies and small appliances. Osco, originally located in the medium-sized cities of six midwestern states, has been undergoing a period of rapid expansion in metropolitan Chicago. While the Main Street Osco stores have been located principally in downtown business sections, the Chicago Osco stores are typically adjacent to Jewel food stores or are in combination with Jewel food stores sharing common check-outs, exits and entrances.

The third major development in the expansion into general merchandise was the 1962 purchase of Turn-Style Operating Corp. with four self-service department stores in the Boston Area. Since that time six new 100,000-square-foot Family Centers have been opened, each including a food store and offering about 60,000 items of general merchandise.

In many ways retailing has come full turn to the modern version of the country store of 50 years ago. Today, however, merchandise selection is greater, values for customers are improved and customer satisfactions are enhanced.

Concurrent with our expansion of sales of general merchandise has been a reorganization of the buying function. Initially, each operating division purchased its own general merchandise requirements. Early in 1964 a central buying group was formed to purchase general merchandise, both hard and soft goods, for Turn-Style, Chicago Osco Drug and Osco Drug, Inc. In January 1965, further elimination of duplication in the buying of hard goods was achieved by incorporating buyers from the Home Service Routes Division into the central buying group. As the new year starts, we have a central buying group for general merchandise that serves all divisions of Jewel.

This central buying group will provide Jewel with a highly effective organization that will be knowledgeable and able to capitalize on merchandising opportunities for the operating divisions. Reduced buying costs and more effective service will result.

Jewel's investments of the past three years in general merchandise growth do not imply any diminution of our efforts to expand the sales of fine quality foods. While general merchandise has added significantly to total sales, it has also stimulated food sales because of the convenience provided by one-stop shopping.

Prepared Food Services

Convenience foods, including fresh, frozen and canned items, have gained rapid acceptance during the past decade. An increase in the number of homemakers employed outside the home and the demands of larger families have brought forth a rising tide of quick and easy-to-prepare foods. Familiar examples are pizza, fresh and frozen pastries, frozen vegetables, ready-to-serve salads and cooked meats. To capitalize on the trend toward increased use of prepared foods, Jewel has continued its expansion of service shops within its Jewel, Eisner and Star supermarkets. Pastry shops, sausage shops and delicatessen or patio shops include a wide array of cooked and partially prepared foods that provides take-home-and-serve convenience plus high quality. The pastry shop presents a full line of over 200 items of frozen and non-frozen pastries baked in our own modern bakeries. Most pastry shops have a pastry hostess to introduce new items to customers, offer suggestions and to help in every way to satisfy needs of our customers.

The sausage shops, each with a full-time attendant, present a unique combination of service and breadth of selection of

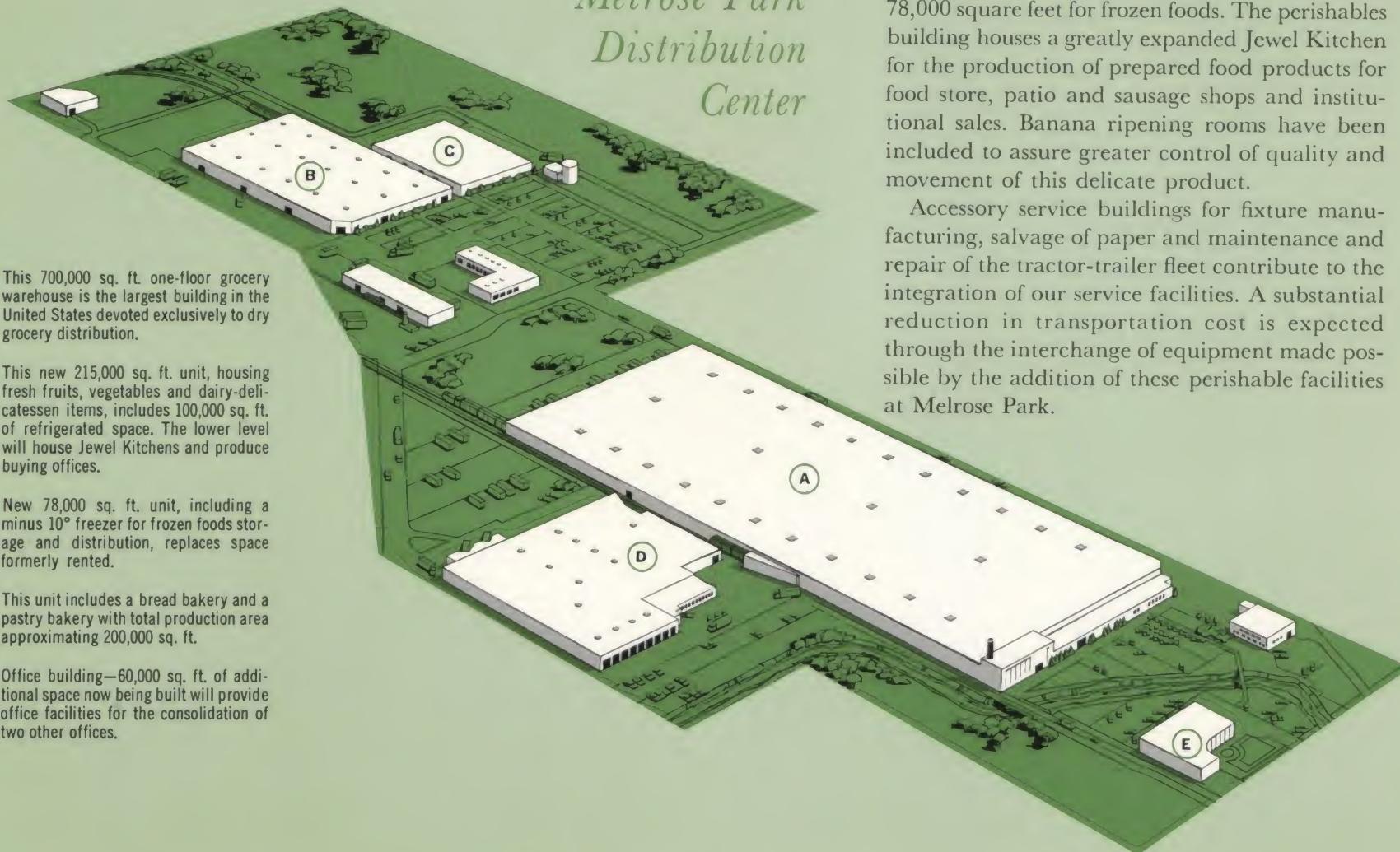
cold cuts, barbecued chicken and ribs, sausage and prepared meat products. Customers have responded enthusiastically to the convenience of a single location within the store and the wide selection of ready-to-serve items.

Patio shops, or delicatessens, continue to gain acceptance as Jewel's reputation for quality salads, cooked ready-to-eat foods, hot pies and special breads becomes better known by food store customers. Catering by these shops for special affairs has been expanding. The new Jewel Kitchen facilities at Melrose Park, and expanded Star facilities in Boston, will make it possible to offer an even greater variety of items produced under ideal conditions.

Jewel and its subsidiaries are also keenly aware of the rapidly increasing consumption of food outside the home. Star Markets in 1964 operated 66 ice cream-sandwich shops under the well-known Brigham's name. At least 12 more of these shops will open in 1965. Additional food service facilities are operated in the Turn-Style Family Centers. These luncheon shops provide a welcome place for customers to relax during their shopping tour.

A special type of food service has been offered to the tenants of three of Chicago's high-rise apartments. These Chef's Pantries, oriented to the needs of apartment dwellers, embrace the finest in food shopping and the ultimate in service for the homemaker, party hostess and the daily meal planner. An impressive menu from the Chef's Pantry Continental Kitchen offers an exciting variety of foods prepared from 20 special recipes featuring everything from beef stroganoff to lobster newburg. Tenants may call the chef, order a complete meal or a special dish and within minutes it will be delivered to their apartment ready to serve.

One of every four food dollars is spent on food consumed away from home. Jewel is exploring additional steps to participate in this expanding market for food. The opportunities for selling food plus special service to our customers and institutions provide growth potential and are a logical extension of our food distribution activities.



Melrose Park Distribution Center

- (A) This 700,000 sq. ft. one-floor grocery warehouse is the largest building in the United States devoted exclusively to dry grocery distribution.
- (B) This new 215,000 sq. ft. unit, housing fresh fruits, vegetables and dairy-delicatessen items, includes 100,000 sq. ft. of refrigerated space. The lower level will house Jewel Kitchens and produce buying offices.
- (C) New 78,000 sq. ft. unit, including a minus 10° freezer for frozen foods storage and distribution, replaces space formerly rented.
- (D) This unit includes a bread bakery and a pastry bakery with total production area approximating 200,000 sq. ft.
- (E) Office building—60,000 sq. ft. of additional space now being built will provide office facilities for the consolidation of two other offices.

This 92-acre site includes nine buildings with 35 acres under roof. High standards of service to Jewel customers and to our stores have guided the planning of these distribution facilities.

The first buildings at this site included the office building and dry grocery warehouse opened in 1955. Bakery facilities were added in 1957 and enlarged in 1961. The added new facilities include 215,000 square feet for fresh fruits and vegetables, dairy and delicatessen items and 78,000 square feet for frozen foods. The perishables building houses a greatly expanded Jewel Kitchen for the production of prepared food products for food store, patio and sausage shops and institutional sales. Banana ripening rooms have been included to assure greater control of quality and movement of this delicate product.

Accessory service buildings for fixture manufacturing, salvage of paper and maintenance and repair of the tractor-trailer fleet contribute to the integration of our service facilities. A substantial reduction in transportation cost is expected through the interchange of equipment made possible by the addition of these perishable facilities at Melrose Park.

Wholesaling Activities

In 1963 our Eisner operation was converted to a wholesale basis to serve our Eisner stores and others in the same territory. This move was made in order that we could participate in a segment of food distribution which has demonstrated substantial growth in recent years. We are currently serving 39 wholesale accounts and expect to further expand this operation in 1965.

Foreign Operations

BELGIUM

Supermarchés, G.B., in which Jewel has a 36% equity interest, opened seven new supermarkets in 1964, bringing total stores in operation to 24 as of January 30, 1965. Most of these stores are located in Antwerp and Brussels and adjacent suburbs. Sales for the year approximated \$25,500,000, an increase of 40% from the prior year. Sales for twelve stores in operation for two or more years improved 15% in 1964. Earnings exceeded those of the prior year. Last spring Jewel completed an additional investment of \$1,286,000 in Supermarchés, thereby maintaining our pro rata share of the equity.

Superbazars, in which Jewel has an 18.75% equity interest, opened no new stores in 1964 but sales for the year rose 33% over 1963. This company, which operates five self-service department stores, each of which includes a Supermarchés food store, earned a profit during 1964, its fourth year of operation.

Supermarchés, G.B. expects to open five new stores in 1965. Superbazars has four sites in inventory and plans to open new stores on these sites late in 1966 or at the beginning of 1967. Neither Supermarchés nor Superbazars will require additional equity financing in 1965.

A market research agency located in Belgium has reported that 60,000,000 potential customers, representing 35% of the population and 50% of the buying power of the European Common Market, are located within a semicircle with a radius of 185 miles from Brussels, Belgium.

ITALY

During 1964, agreements between Jewel and the Motta Company of Milan, Italy, an internationally known producer of quality ice cream, confectionery and bakery goods and other food products and the operator of fine restaurants, were formalized with the incorporation of the Societa Italo Americana Supermarkets. Initial capital totaled approximately \$500,000 of which Jewel has 49% and Motta 51%. The first supermarket was opened in Milan in June, 1964. Customer acceptance of the first store has been most encouraging and per capita sales from its inception were nearly twice the average per capita sale of food stores in Italy. Three additional supermarkets will be opened in 1965.



STARTING IN AUGUST, 1964, Dr. Wendell Earle, Professor of Marketing at Cornell University, has been spending a year's sabbatical leave with Jewel. He has been studying, analyzing and reporting on a wide range of special projects for Jewel's President, Donald S. Perkins. Jewel shareholders will be interested in his comments about Jewel, the food industry and President Johnson's Commission on Food Marketing.

"AFTER SEVERAL YEARS of advising students to seek a career in the food industry, I decided to accept my own advice. I am more convinced than ever of the opportunities for young men to progress rapidly through a series of challenging assignments to responsible positions in food retailing. It is a demanding association, but one that offers financial rewards which will match those offered by other industries. An analyst for one of the major brokerage houses recently asked what accounted for the strength and growth of Jewel Tea. My answer was that people come first at Jewel. The response is a dedicated group of employees who really provide 'Red Carpet' service for customers.

"Jewel is an exciting company with which to be associated. New methods, new services and new areas of operation are under constant study. No 'sacred cows' are free from scrutiny for possible improvements. As a result, Jewel has pushed the bounds of retailing forward to include drugs, general merchandise and food, while still profitably operating one of the oldest forms of retailing—home shopping.

"Jewel is staffed by young men and women with major responsibilities for profit centers. Its officers, with an average age of less than 50, are probably younger than those of any other large food chain.

"Soon after I arrived at Jewel, President Johnson's Food Marketing Commission was a major topic of discussion in the trade press. More than one million dollars had been authorized by Congress for a study of several aspects of food retailing, including integration into manufacturing, meat pricing, and the marketing problems of the fruit and vegetable industry. I was naturally curious as to the reaction of Jewel executives to this controversial study that had been thrust into the already highly competitive environment of food retailing. During the ensuing months I have concluded that Jewel welcomes the opportunity to support a factual study of the entire food industry from farm to consumer table. The Commission's hearings will present an unusual forum to clearly and impartially

document competitive changes in the food industry.

"Much has already been written and many speeches have been given on the expected findings of the Commission. Without prejudging the Commission's findings, a brief review of what food retailing has accomplished may be in order. I might start by asking this question: 'What is the purpose for the existence of the thousands of diverse businesses that we call our food marketing system?' The answer from consumers is unmistakable—it is to provide an unending supply of foods and related services at the lowest possible prices. To achieve our present level of efficiency in a competitive society has meant combining some marketing functions and eliminating others. This economic process, which is continuous and hopefully never-ending, has resulted in self-service supermarkets, frozen foods, consumer-size packages, pre-cooked foods and a food supply without season or restrictions as to sources.

"A major contribution of the Commission will be the publication of a report documenting the changes, accomplishments and related statistics presently unavailable or found only in scattered sources. Although no major piece of new legislation is needed in my opinion, the Commission's work has already generated an extensive amount of self-analysis which may ultimately be beneficial to the industry.

"Jewel seems to me to be confident that its long history of fair and equitable dealings with suppliers and customers will support its contention that the Company's success in food distribution has been built on a sound base.

"My year with Jewel is rapidly drawing to a close. My experience has given me new insights into the problems of the business world and I suspect that my solutions to textbook problems will be tempered with a greater measure of understanding. My thanks and appreciation to Jewel Tea for their willingness to try to find out whether a professor could exist outside of the classroom."

*Consolidated
Income Account*

AND ACCUMULATED EARNINGS
—UNAPPROPRIATED

	<i>52 Weeks ended January 30, 1965</i>	<i>52 Weeks ended February 1, 1964</i>
Sales and Revenues:		
Retail sales	\$781,834,740	\$747,536,433
Wholesale sales	6,201,799	2,421,273
Interest income	585,243	747,091
Total sales and revenues	<u>788,621,782</u>	<u>750,704,797</u>
Cost of Doing Business, including depreciation and amortization of \$9,317,652 in fiscal 1964 and \$8,617,029 in fiscal 1963:		
Cost of goods sold	618,317,961	591,379,345
Selling, general and administrative expenses	144,274,461	135,051,410
Provision for doubtful accounts	1,301,283	907,920
Interest on indebtedness	1,682,809	1,616,521
	<u>765,576,514</u>	<u>728,955,196</u>
Earnings Before Federal Income Taxes	23,045,268	21,749,601
Provision For Federal Income Taxes	<u>10,158,000</u>	<u>10,614,000</u>
Net Earnings	12,887,268	11,135,601
Accumulated Earnings—unappropriated, beginning of year	59,434,171	54,985,994
	<u>72,321,439</u>	<u>66,121,595</u>
Deduct:		
Cash dividends declared:		
Jewel preferred stock	184,456	194,401
Jewel common stock	6,493,809	5,883,692
Star common stock	—	556,110
Transactions in treasury stock—Star	—	53,221
	<u>6,678,265</u>	<u>6,687,424</u>
Accumulated Earnings—unappropriated, end of year	<u>\$ 65,643,174</u>	<u>\$ 59,434,171</u>

See accompanying notes to consolidated financial statements.

*Consolidated
Balance Sheet*

ASSETS

Current Assets:

	<i>January 30, 1965</i>	<i>February 1, 1964</i>
Cash	\$ 22,162,183	\$ 16,289,306
Marketable securities and certificates of deposit	15,804,426	21,668,633
Accounts receivable, less allowances	15,921,830	15,243,138
Inventories, at lower of first-in, first-out cost or market	62,529,119	62,905,999
Temporary investment in retail store properties	8,003,501	5,941,278
Prepaid expenses and supplies	2,728,694	2,751,476
Total current assets	127,149,753	124,799,830

Deferred Charge—

Premiums advanced to customers	1,670,277	1,639,602
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Other Investments

6,065,720

4,411,279

Property, Plant and Equipment (at cost):

Buildings	24,955,872	18,541,128
Equipment and leasehold improvements	103,009,174	95,862,800
	127,965,046	114,403,928
Less allowance for depreciation and amortization	57,979,111	52,056,379
	69,985,935	62,347,549
Land	4,520,183	3,871,969
Total property, plant and equipment	74,506,118	66,219,518

Goodwill

1

\$209,391,869

\$197,070,230

LIABILITIES

Current Liabilities:

Accounts payable and accrued expenses.....	\$ 35,382,663
Dividends payable.....	1,716,631
Accrued federal, state and local taxes.....	12,246,213
Accrued payrolls and profit sharing.....	9,837,372
Long-term indebtedness due within one year.....	3,101,179
Total current liabilities.....	62,284,058

Long-Term Indebtedness, due after one year.....	33,227,818

Deferred Federal Income Taxes.....	6,984,349

Stockholders' Investment:

Preferred stock—3½% cumulative \$100 par value—authorized and issued 51,000 shares.....	5,100,000
Common stock—\$1 par value—authorized 7,500,000 shares; outstanding 4,061,293 shares at January 30, 1965.....	35,074,782
Accumulated earnings—reserved for self-insured losses and general contingencies.....	1,250,000
Accumulated earnings—unappropriated.....	65,643,174
Preferred stock in treasury, at cost.....	(172,312)
Total stockholders' investment.....	106,895,644

January 30, 1965

February 1, 1964

\$ 30,112,168
1,666,039
11,390,832
8,607,358
3,065,771
54,842,168

33,227,818	35,973,956
6,984,349	6,009,761
5,100,000	5,100,000
35,074,782	34,465,050
1,250,000	1,250,000
65,643,174	59,434,171
(172,312)	(4,876)
106,895,644	100,244,345
\$209,391,869	\$197,070,230

ACCOUNTANTS' REPORT

To the Stockholders
and Board of Directors,
Jewel Tea Co., Inc.

We have examined the accompanying consolidated balance sheet of Jewel Tea Co., Inc. and subsidiaries as of January 30, 1965, and the related statements of income and accumulated earnings and source and use of funds for the fifty-two weeks then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Jewel Tea Co., Inc. and subsidiaries at January 30, 1965, the consolidated results of their operations, and the source and use of funds for the fifty-two weeks then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Touche, Ross, Bailey & Smart

TOUCHE, ROSS, BAILEY & SMART
Certified Public Accountants

March 12, 1965

See accompanying notes to consolidated financial statements.

*Consolidated Source
& Use of Funds*

	<i>52 Weeks ended Jan. 30, 1965</i>	<i>52 Weeks ended Feb. 1, 1964</i>
<i>Source of Funds:</i>		
Net earnings.....	\$12,887,268	\$11,135,601
Depreciation and amortization.....	9,317,652	8,617,029
Increase in deferred federal income taxes.....	974,588	1,652,548
	<hr/>	<hr/>
Sale of common stock.....	23,179,508	21,405,178
Increase or (decrease) in other liabilities.....	609,732	271,453
	<hr/>	<hr/>
New long-term debt.....	7,406,482	(3,037,214)
	—	23,869,000
	<hr/>	<hr/>
	\$31,195,722	\$42,508,417
<i>Use of Funds:</i>		
Dividends to owners of the business.....	\$ 6,678,265	\$ 6,634,203
New property, plant and equipment (net).....	17,604,252	13,141,907
Decrease in long-term debt.....	2,710,730	2,500,351
Acquisition of preferred stock.....	167,436	254,564
Increase in cash and marketable securities.....	8,670	6,605,254
Increase in other investments.....	1,654,441	232,386
Increase or (decrease) in inventories.....	(376,880)	12,207,678
All other (net).....	2,748,808	932,074
	<hr/>	<hr/>
	\$31,195,722	\$42,508,417

Notes to Consolidated Financial Statements

OTHER INVESTMENTS

Real Estate Corporations

Jewel has preferred stock interests, carried at a cost of \$955,250 at January 30, 1965, in 91 corporations from which certain retail stores and Home Service Routes field office-warehouses are leased. The preferred stock is non-voting with respect to directors, but may be converted into common stock, upon payment of a 10% premium after ninety days notice. After such conversion, Jewel would own in excess of 99% of the common stock of such corporations. The presently outstanding common stock of the Real Estate Corporations is owned by Jewel T Foundation either directly or through intermediary corporations.

Each real estate corporation has obtained debt financing generally for a 20-year term at rates varying from 4½% to 5½% with provisions for prepayment, usually after five years. Jewel has executed a net lease with each corporation at a rental sufficient to repay the amounts borrowed plus interest over the term of the lease and the leases have been assigned to secure the debt.

The following condensed balance sheets set forth the combination of the accounts of Jewel with those of the Real Estate Corporations as they would appear if Jewel's preferred stockholdings were converted into a common stock interest:

Jewel Tea Co., Inc. and Subsidiary Companies	Real Estate Corporations	Jan. 30, 1965	Jan. 2, 1965	Com- bined
(In thousands of dollars)				

ASSETS

Current assets:				
Cash, marketable securities and certificates of deposit.....	\$ 37,967	\$ 1,793	\$ 39,760	
Other current assets.....	89,183	123	81,080	
	127,150	1,916	120,840	
Deferred charge.....	1,670		1,670	
Other investments.....	6,066		5,111	
Property, plant and equipment, at cost.....	132,485	36,061	173,803	
Less allowance for depreciation and amortization.....	57,979	2,497	60,476	
	74,506	33,564	113,327	
	\$209,392	\$ 35,480	\$240,948	

LIABILITIES

Current liabilities:				
Long-term indebtedness due within one year.....	\$ 3,101	\$ 1,171	\$ 4,272	
Other current liabilities.....	59,183	3,299	59,513	
	62,284	4,470	63,785	
Long-term indebtedness due after one year.	33,228	27,704	60,932	
Deferred federal income taxes.....	6,984	554	7,538	
Stockholders' investment:				
Preferred stock issued.....	5,100	955	5,100	
Common stock outstanding:				
Jewel.....	35,075		35,075	
Real Estate Corporations (after elimination of intragroup holdings)..		2	2	
Accumulated earnings.....	66,893	1,795	68,688	
Preferred stock in treasury, at cost.....	(172)		(172)	
	106,896	2,752	108,693	
	\$209,392	\$ 35,480	\$240,948	

Net earnings of the Real Estate Corporations amounted to \$564,000 for the 1964 fiscal year, and \$407,000 for 1963.

Aggregate annual maturities of long-term debt of the Real Estate Corporations are as follows:

1966—\$1,223,000; 1967—\$1,280,000;
1968—\$1,339,000; 1969—\$1,401,000;
and the balance through 1989.

Foreign

The Company's investment and ownership interest in foreign operations were as follows:

Company	Location	% Stock Interest	Cost
Supermarchés G. B.....	Belgium	36.00%	\$3,143,499
Superbazars.....	Belgium	18.75	1,309,951
Società Italio Americana Supermarkets.....	Italy	49.00	235,604

LONG-TERM INDEBTEDNESS

Long-term indebtedness at January 30, 1965, includes the following:

	Rate	Total Outstanding	Due Within One Year	Final Maturity
Bank-administered trusts.....	4.5%	\$20,000,000		1987
Banks.....	3.25—4.75	4,000,000	\$2,000,000	1966
	4.75	800,000	200,000	1968
Insurance companies..	2.85	3,000,000	500,000	1971
	3.75	3,260,800	217,400	1978
	5	2,500,000		1978
	4.125	365,500	57,000	1971
Mortgage notes.....	4.625	1,064,471	39,353	1982
	5.25	955,698	31,520	1983
	4.5—5.0	382,528	55,906	1970

Under terms of the note agreements \$26,333,996 of accumulated earnings are not restricted for the payment of cash dividends on common stock.

DEFERRED FEDERAL INCOME TAXES

For the 1964 fiscal year, the Company applied the investment credit arising from current year purchases of qualified assets as a reduction of the year's provision for federal income taxes. The amount of investment credit arising from purchases of qualified assets during the 1962 and 1963 fiscal years will continue to be amortized over the estimated useful lives of the respective assets. The change in method increased current year's earnings by \$607,458.

Deferred taxes also include the deferred taxes arising from the use of accelerated depreciation for tax purposes.

PREFERRED STOCK

Under the sinking fund provisions relating to the preferred stock, the Company must acquire annually on or before each June 30 at least 1,500 shares. As of January 30, 1965, the Company had retired the required shares through June 30, 1965, and held in the treasury 1,873 shares at a cost of \$172,312 covering the sinking fund requirements into 1967.

COMMON STOCK

The common stock account was increased during the year by 15,602 shares and \$609,732 through issuance to employees under stock option and purchase plans.

At January 30, 1965, there were 277,210 shares of common stock reserved, of which 54,345 were for employee stock purchase plan purchases, 126,000 shares were for issuance to profit-sharing trusts and 96,865 shares were for stock options described more fully below:

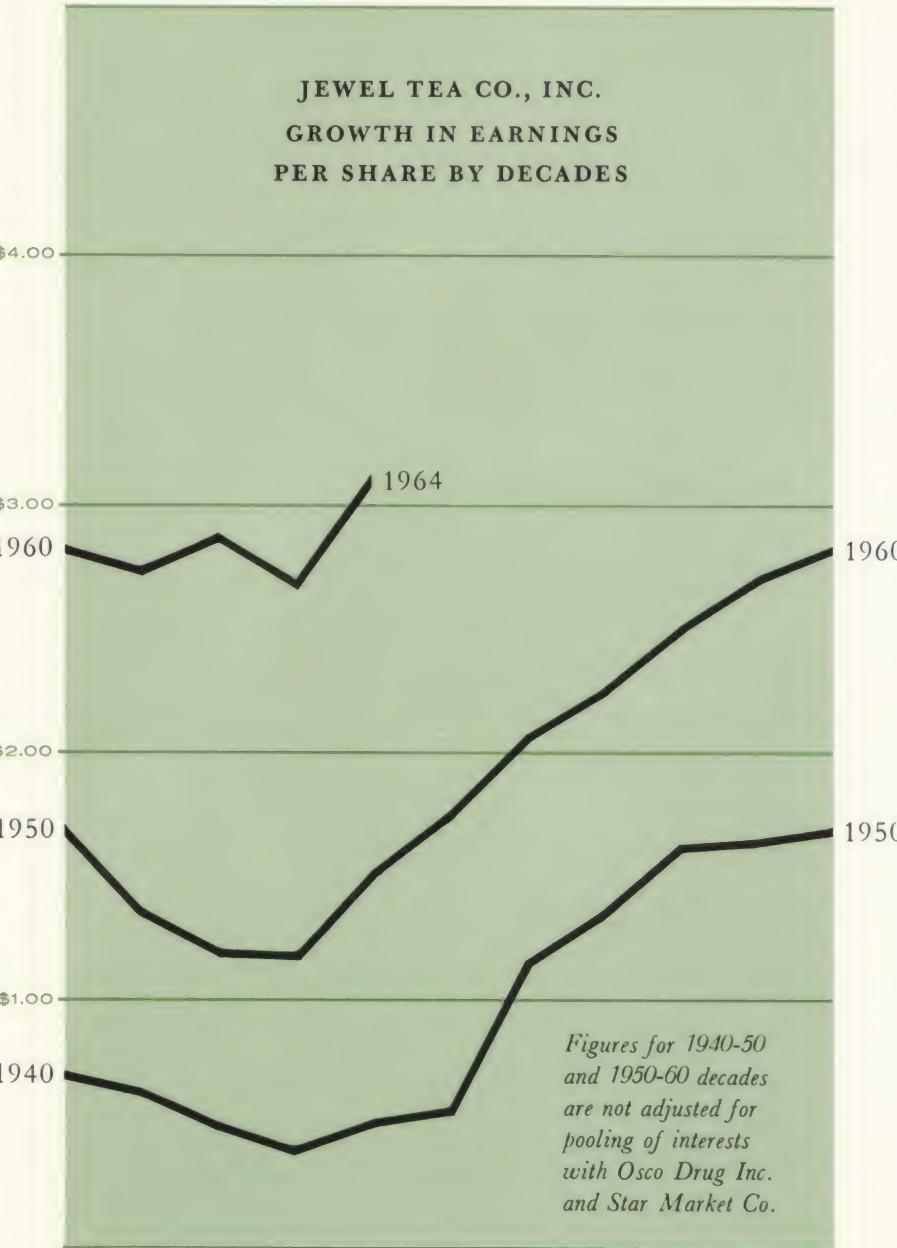
	Reserved	Granted	Available
Balance, February 1, 1964.....	106,339	71,339	35,000
Granted during the year.....		22,500	(22,500)
Exercised during the year.....	(7,709)	(7,709)	
Cancelled during the year.....	(1,765)	(1,765)	
Balance, January 30, 1965.....	96,865	84,365	12,500
Options exercisable at January 30, 1965.....		30,655	

Outstanding options as to 4,465 shares (converted from options to buy Star Market Co. shares) were granted at prices ranging from \$15.75 to \$44.53 per share; these options vary as to term and conditions, but all expire by 1970. Other outstanding options were granted at prices ranging from \$31.60 to \$61.04 per share, representing 95% or more of the market price on the date of grant, become exercisable in equal installments over a four-year period and expire ten years from the date of grant in the case of restricted options and expire five years from date of grant during 1964.

LONG-TERM LEASES

Nearly all retail stores and the field office-warehouses for the Home Service Routes are under lease. Rentals for leased properties were \$11,674,437 in 1964 and \$10,799,704 in 1963 including \$434,186 and \$390,375, respectively, for rentals based on sales. The total rentals for 1964 and 1963 included \$2,939,156 and \$2,386,219, respectively, paid to affiliated real estate corporations.

Annual commitments for leases expiring beyond five years total approximately \$8,740,000 exclusive of rentals based on sales required by some leases. Of this minimum annual commitment approximately 20% will have expired by the end of 10 years, 60% by the end of 15 years and 96% by the end of 20 years.



Consolidated Ten Year Financial Summary*

(Total dollars in thousands,
except per share figures)

For The Year

Retail sales

Earnings:

Before federal income taxes

Net for the year

Earnings per common share‡

Dividends per common share‡

Retained earnings

Depreciation

New property, plant and equipment (net)

At The Year End

Net working capital

Total assets

Long-term debt

Preferred stock

Common stockholders' equity

Equity per common share‡

Number of common shares outstanding‡

*In May, 1962 the fiscal year of the Company was changed to the Saturday nearest January 31 from the Saturday nearest December 31.

1964	1963	1962†	1961	1960	1959	1958†	1957	1956	1955
\$ 781,835	\$ 747,536	\$ 709,503	\$ 638,273	\$ 596,966	\$ 562,505	\$ 534,921	\$ 493,497	\$ 442,508	\$ 394,750
\$ 23,045	\$ 21,750	\$ 24,323	\$ 22,910	\$ 23,449	\$ 21,728	\$ 19,394	\$ 16,410	\$ 14,794	\$ 12,941
12,887	11,136	11,850	11,266	11,345	10,556	9,370	7,997	7,333	6,320
3.13	2.70	2.88	2.75	2.84	2.72	2.45	2.12	1.97	1.71
1.60	1.60	1.60	1.50	1.40	1.20	1.00	.98	.98	.98
\$ 6,209	\$ 4,501	\$ 5,583	\$ 5,631	\$ 6,263	\$ 6,366	\$ 5,895	\$ 4,744	\$ 4,298	\$ 3,305
9,318	8,617	7,875	7,216	6,730	6,240	5,338	4,856	3,918	3,806
\$ 17,604	\$ 13,142	\$ 15,298	\$ 10,328	\$ 10,489	\$ 9,104	\$ 13,550	\$ 9,043	\$ 9,665	\$ 5,286
\$ 64,866	\$ 69,958	\$ 48,040	\$ 51,286	\$ 49,953	\$ 45,873	\$ 39,693	\$ 35,178	\$ 32,616	\$ 33,264
209,392	197,070	172,720	163,155	153,598	129,765	122,092	105,824	99,317	86,841
\$ 33,228	\$ 35,974	\$ 15,234	\$ 18,459	\$ 21,133	\$ 19,582	\$ 20,338	\$ 16,161	\$ 14,339	\$ 13,777
4,913	5,095	5,374	5,537	5,691	5,748	5,803	5,832	5,904	6,595
101,983	95,149	90,504	83,006	74,587	66,059	56,873	50,007	45,101	40,087
25.11	23.52	22.39	20.65	19.01	17.42	15.23	13.63	12.52	11.28
4,061,293	4,045,691	4,042,130	4,020,344	3,923,463	3,792,556	3,733,395	3,669,363	3,601,414	3,553,977

†53-week year; other years 52 weeks.

‡Adjusted for stock splits and stock dividends.

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Exec. Vice President, Osco Drug, Inc.

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Chairman, Board of Directors and

Chief Executive Officer

Jewel Tea Co., Inc.

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Trust Co., Barrington, Illinois

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Independent Business Consultant

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Vice President

Jewel Tea Co., Inc.

A. VERNON JANNOTTA

Independent Business Consultant

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Senior Partner

McDermott, Will & Emery

STANLEY R. MILLER

Partner

Goldman, Sachs & Co.

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Star Market Co.

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President

Jewel Tea Co., Inc.

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Vice President

Jewel Tea Co., Inc.

FRANK L. SPREYER

Vice President

Jewel Tea Co., Inc.

PAUL STRATTON

Chairman, Board of Directors

Osco Drug, Inc.

HAROLD J. SZOLD

Partner

Lehman Brothers

HOWARD O. WAGNER

Vice President and Treasurer

Jewel Tea Co., Inc.

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Franklin J. Lunding

Donald S. Perkins

Stephen P. Mugar**

Edward H. McDermott**

Finance

Franklin J. Lunding*

George L. Clements

Howard O. Wagner

Donald S. Perkins**

Edward H. McDermott**

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James L. Allen

Edward H. McDermott

George L. Clements**

William A. Gerbosi**

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A. Vernon Jannotta

Stanley R. Miller

James L. Allen**

Edward H. McDermott**

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William A. Gerbosi

Howard O. Wagner

James L. Allen**

A. Vernon Jannotta**

*Committee Chairman

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and Chief Executive Officer*

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Vice President, Eisner Operations

HARRY G. BECKNER

Vice President, Sales, Food Stores

JOHN A. BREWER

Vice President, Store Meat Operations

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*Vice President, General Manager, Routes
and Executive Vice President, General Manager,
Osco Drug, Inc.*

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Vice President, Public Affairs

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*Vice President, General Merchandise,
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Osco Drug, Inc.*

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*Vice President, Grocery Merchandising,
Food Stores*

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*Chairman, Finance Committee
and Chief Financial Officer*

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Vice President, Sales, Routes

HERMAN T. LANDON

Vice President, Supply, Routes

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*President,
Star Market Co.*

STEPHEN P. MUGAR

*Chairman, Board of Directors,
Star Market Co.*

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L. JACK SKYLES

Vice President, Chicago Osco Drug Stores

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Warehousing & Transportation*

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Vice President, Real Estate and Construction

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Vice President, Store Grocery Operations

JOHN N. BALCH

Controller

GRANT C. GENTRY

Secretary and General Counsel

EDWARD J. DAVIS

Assistant Treasurer

WALTER E. MEYER

Assistant Controller

H. ROBERT POWELL

Assistant Treasurer

EDWARD T. VORBECK

Assistant Secretary and Associate General Counsel

ANNUAL MEETING

The annual meeting of stockholders will be held at 2:00 p.m. on Wednesday, June 16, 1965 at the Pick-Congress Hotel, Chicago, Illinois

TRANSFER AGENT

Manufacturers Hanover Trust Company
40 Wall Street, New York, New York 10015

REGISTRAR

Bankers Trust Company
16 Wall Street, New York, New York 10015

STOCK LISTING

New York Stock Exchange

CORPORATE OFFICE

135 South LaSalle Street, Chicago, Illinois 60603

EXECUTIVE OFFICE

1955 West North Avenue,
Melrose Park, Illinois 60160

This report is submitted to the stockholders of the Corporation for their information and is not intended to be used in connection with the sale of or offer to sell any securities, nor is it intended to be information to be included in a prospectus within the meaning of the provisions of the Federal Securities Act of 1933, as amended.

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